COMMONWEALTH OF MASSACHUSETTS

DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

NSTAR Gas Company	)	D.T.E. 03-57

BRIEF OF NSTAR GAS COMPANY

I. INTRODUCTION

On May 16, 2003, NSTAR Gas Company ("NSTAR Gas" or the "Company") filed for approval by the Department of Telecommunications and Energy (the "Department") two interrelated Service Agreements with the National Fuel Gas Supply Corporation ("National Fuel"). The Service Agreements consist of an FSS Service Agreement for firm storage service (the "FSS Agreement") and an FST Service Agreement for firm transportation service ("FST Agreement) (collectively, the "Agreements"). Through these two Agreements, National Fuel will provide: (1) firm storage service to NSTAR Gas up to a Maximum Storage Quantity ("MSQ") of 350,000 Dekatherms ("Dth") per year; and (2) firm transportation service to the Company's citygates. The Agreements commenced on April 1, 2003 and continue for a one-year term ending on March 31, 2004, with the option to continue service thereafter under certain conditions.

In accordance with a duly published notice, the Department held public and evidentiary hearings at its Boston offices on July 18, 2003 and August 8, 2003, respectively. KeySpan Energy Delivery New England was granted leave to participate in this proceeding as a limited participant (Tr. 1, at 4).

The Company presented one witness at the evidentiary hearing, Barbara Stamos,

Lead Gas Supply Planning Administrator, who testified on the Company's cost and need analyses. The record in this proceeding consists of 12 exhibits, including: (1) the Company's Explanatory Statement and supporting documentation; and (2) the Company's responses to information requests issued by the Department. The Company also submitted responses to six record requests issued by the Department. In addition, at the evidentiary hearing, pursuant to 220 C.M.R. 1.10(3), the Department incorporated by reference into this proceeding the Company's most recently-approved Load Forecast and Resource Plans for 1996-2001 (approved in Commonwealth Gas Company, D.P.U./D.T.E. 96-117 (2000) and 2001-2006 (approved in NSTAR Gas Company, D.T.E. 02-12 (2003)) (the "2001-2006 Supply Plan") (Tr. 1, at 54).

NSTAR Gas submits its brief in support of the Company's request for approval of the Agreements with National Fuel. As discussed herein, the record in this proceeding demonstrates that the proposed Agreements are consistent with the Company's portfolio objectives and compare favorably to the range of alternatives reasonably available to the Company and its customers, consistent with the Department's standard set forth in Commonwealth Gas Company, D.P.U. 94-174-A (1996). Accordingly, the Department should approve the proposed Agreements with National Fuel.[1]

II. STANDARD OF REVIEW

In evaluating a gas utility's options for the acquisition of commodity resources as

[1] The National Fuel Agreements were signed on March 3, 2003, for effect April 1, 2003 and the Company filed its request for approval of the Agreements with the Department on May 16, 2003. The Company and the Company's counsel prepared the filing after the Company had completed negotiations and signed the agreements, and not before, because it is not feasible to prepare a filing for the Department prior to concluding negotiations (see Tr. 2, at 11). Had the Company chosen an alternative other than the National Fuel Agreements, the Company's filing would have been specifically designed to address how that alternative, with its particular cost and non-cost factors, would meet the Department's standard of review for long-term supply contracts.

well as for the acquisition of capacity, pursuant to G.L. c. 164, § 94A, the Department examines whether the acquisition of the resource is consistent with the public interest. Commonwealth Gas Company, D.P.U 94-174-A at 27 (1996). To determine whether the proposed acquisition of a resource is consistent with the public interest, the Department evaluates whether, at the time of the acquisition or contract renegotiation, the transaction: (1) is consistent with the Company's portfolio objectives; and (2) compares favorably to the range of alternatives reasonably available to the Company and its customers, including releasing capacity to customers migrating to transportation. Id. To establish that the resource acquisition is consistent with portfolio objectives, the Company may refer to portfolio objectives established in a recently-approved resource plan. Id. at 27-28.

To determine whether a proposed resource compares favorably to the range of alternatives reasonably available to the Company, the Department will evaluate both price and non-price factors. For price, the Department considers whether the pricing terms are competitive with those for the range of capacity, storage and commodity options that were available to the company at the time of the acquisition, as well as with those opportunities that were available to other local distribution companies in the region. Id. at 28. With respect to non-price factors, the Department will determine whether the acquisition satisfies the Company's non-price objectives, including, but not limited to, flexibility of nominations and reliability and diversity of supplies. Id. at 29.

III. THE NATIONAL FUEL AGREEMENTS ARE CONSISTENT WITH THE PUBLIC INTEREST

As demonstrated by the evidence, the Company's arrangement with National Fuel: (1) is consistent with the portfolio objectives established in the Company's most-

recent Supply Plan; and (2) compares favorably to the range of alternatives reasonably available to the Company and its customers.

A. The Agreements Are Consistent With the Company's Supply Plan Approved by the Department in D.T.E. 02-12.

1. The Company's Supply Plan Identified a Need for Additional Supply to Meet a Forecasted Design-Winter Deficiency.

As demonstrated during the proceeding, the National Fuel Agreements are consistent with the Company's most-recent Supply Plan, approved by the Department in NSTAR Gas Company, D.T.E. 02-12 (2003). The Company entered into the National Fuel Agreements to address a projected design-winter supply deficiency beginning in the 2002-2003 split year that had been identified by the Company in its 2001-2006 Supply Plan (see Exhs. NSTAR-1, Attachments C and D). The Company had forecasted this supply deficiency to be small initially, but growing somewhat during the later years of the forecast period (Exh. NSTAR-1, Attachment D). In discussing the forecasted design-winter deficiency in the Supply Plan, the Company noted that it planned to address this deficiency through LNG and/or supplemental supply arrangements to meet customer requirements (2001-2006 Supply Plan at 93; see also Exh. NSTAR-1 (Attachment D)).

The record demonstrates that the design winter deficiency forecasted by the Company in its Supply Plan was further influenced by NSTAR Gas's August 1, 2002 agreement with KeySpan Energy Delivery Company ("KeySpan") to serve approximately 1,100 new customers in Plymouth served historically by KeySpan's affiliate, Colonial Gas Company (Exh. NSTAR-1, at 5-6; RR-DTE-1; Tr. 2, at 14-15; see also Colonial Gas Company/NSTAR Gas Company, D.T.E. 02-44 (2002)). The Company determined specifically that, during a design winter, the Company would

experience additional supply shortages over the forecast period as a result of the incremental load associated with the new Plymouth customers (Exh. NSTAR-1, at 5-6; RR-DTE-1; Tr. 2, at 14-15). NSTAR Gas began serving a portion of these customers directly during November 2002 (Exh.NSTAR-1, at 6; Tr. 2, at 14-15). Accordingly, based on its initial forecasting in the 2001-2006 Supply Plan and the addition of new customers in Plymouth during 2002, the Company refined its design-year adequacy forecast and determined that additional firm resources would be required to address the forecasted inventory deficiency during a design winter (Exh. NSTAR-1, at 5-6; RR-DTE-1).

2. The National Fuel Agreements Are Uniquely Suited to Address the Company's Design Season Inventory Shortfall.

During 2002 and 2003, the Company reviewed its resource portfolio to determine the most efficient and reliable means of addressing the projected design-winter supply deficiency (see Tr. 2, at 8-9). Specifically, the Company analyzed its existing resource portfolio of: (1) long-haul pipeline capacity contracts; (2) storage and related short-haul transportation contracts; and (3) supplemental or peaking supply contracts, including contracts for liquefied-natural gas ("LNG") to determine which type of resource would best address the design-winter deficiency (Exh. NSTAR-1, at 7-9; RR-DTE-3; RR-DTE-4; RR-DTE-6). As discussed below, the Company determined that adding the National Fuel Agreements to its portfolio represented the most cost-efficient means of addressing the forecasted supply deficiency.

a. Given the Nature of the Company's Identified Need, the Procurement of Additional Storage Capacity Represents the Only Viable Alternative to Meet the Design Winter Deficiency.

As discussed above, the Company's resource and requirements forecast shows a

an inventory shortfall during the design winter. However, the Company's resource portfolio does not currently encompass sufficient upstream or on-system storage to allow for increased purchases of supply during the off-peak months for use in the peak season, nor does the portfolio contain sufficient long-haul pipeline capacity to allow for the transportation of additional purchases in a design-winter season from the producing regions. These circumstances therefore limited the Company's procurement options to a small universe of potential alternatives, which are: (1) the purchase of incremental long-haul pipeline capacity to allow for additional transportation from the producing regions of the U.S.; (2) peak-season gas purchases in the market areas, transported to the Company's citygates using existing short-haul transportation capacity that would be available when the Company's storage supplies are exhausted; (3) the purchase of additional LNG refills in the winter months; (4) the purchase of a citygate-delivered supply; and (5) the purchase of incremental storage capacity that would utilize the short-haul capacity already under contract. Although all of these alternatives posed the potential to meet the Company's need putting aside considerations of cost and reliability, the alternative selected by the Company represented the only viable course of action when cost and reliability are factored into consideration.

The identified need requires the purchase of gas in the design season under severe weather conditions, and therefore, any option other than the purchase of incremental storage capacity (i.e., incremental long-haul capacity, market-area purchases, citygate supplies, or LNG purchases), on its face, would require the Company to purchase supply

at the worst possible point, i.e., during a significantly-colder-than-normal winter season.[2] Accordingly, the Company determined that, conceptually, the addition of storage capacity would be the logical supply option because it would allow the Company to purchase gas over the seven-month off-peak period and to store that gas for use in the coming winter (see Attachment RR-DTE-5). In fact, none of the potential alternatives for meeting the identified shortfall represented a viable course of action for the Company, given the cost and reliability considerations involved.

For example, the Company recognized that the acquisition of incremental long-haul capacity to meet a design-winter deficiency would not be cost-effective under almost any circumstances. When used to meet a seasonal shortfall such as the one identified by the Company, incremental long-haul supplies are significantly more expensive than alternatives such as storage (Exh. NSTAR-1, at 7; Exh. NSTAR-1 (Attachment E) (comparing pipeline transportation rates for TETCO and Algonquin Hubline to the National Fuel option)). Because the addition of long-haul pipeline capacity would not be cost-effective to meet the identified, there was no reason for the Company to pursue this alternative.

Similarly, the Company reviewed the historical costs of procuring market area supplies at a point such as Texas Eastern M3, a liquid market-area hub, and transporting these supplies to the Company's citygates using existing short-haul capacity (RR-DTE-5). As demonstrated by the Company, prices for market-area supply have been volatile and are subject to price increases during colder-than-normal weather (see Exh. DTE-

[2] Given the unique characteristics of the supply deficiency, the Company determined that the issuance of an RFP would provide no additional information or price advantage. Typically, the Company issues RFPs to procure resources in the marketplace when there are viable alternatives for meeting the projected or identified need (id.).

NSTAR-1-5; Attachment RR-DTE-5). Therefore, the Company ruled this option out for two reasons: (1) the Company's analysis shows that gas supply purchased in the market area would be more expensive (Exh. DTE-NSTAR-1-5; Attachment RR-DTE-5); and (2) there is no guarantee that these resources will be available when they are needed. Therefore, this potential alternative did not present a viable option for the Company.

Third, the Company analyzed the possibility of purchasing additional liquid refills in the winter months. Specifically, the Company considered increasing its purchases of LNG liquid that could be trucked during the winter season to its facilities in Hopkinton or Acushnet, where it has LNG storage entitlements (Exh. NSTAR-DTE-1-1; RR-DTE-4). Additional LNG purchases would have to be accomplished through liquid refills in the winter months because the identified need exceeds the capacity available for storage in the summer months. Thus, the Company ruled this option out based on both cost and non-cost factors

With respect to cost factors, there are limited providers of LNG in New England, and the Company has access to information regarding LNG cost and availability through its discussions with those providers (Exh. NSTAR-DTE-1-1; RR-DTE-4). After ongoing discussions with the major LNG provider in the region, the Company determined that trucked liquid or baseload vapor supplies during the winter season would be expensive relative to the storage option (Exh. NSTAR-DTE-1-1; Attachment RR-DTE-4 **CONFIDENTIAL**). The Company made this determination by comparing the all-inclusive cost of National Fuel storage supplies (including downstream winter short-haul demand charges) to the cost of LNG purchased, trucked, stored and vaporized in the Company's LNG storage facility, both on a historical basis and on the basis of LNG

prices in the summer months of 2003 (Attachment RR-DTE-4 **CONFIDENTIAL)**. The Company recognized that, based on an analysis of current and historical prices, the National Fuel storage service would be less expensive than LNG (id.).

With respect to non-cost factors, the Company recognized that a significant amount of additional trucking would be necessary to ensure sufficient refills in the winter season to meet a design-winter deficiency (RR-DTE-4). Based on deliveries of 1000 Dth per truck, the Company estimated that, over the 90-day period of January through March, the Company would require approximately 4 additional truckloads of LNG per day to achieve the equivalent of the 350,000 Dth available under the National Fuel contract (id.). In the Company's judgment, this level of trucking represents an unreasonable and inappropriate increase in the amount of trucks, in that there is the potential to undermine the reliability of the Company's winter-supply resources.

Lastly, the Company considered procuring delivered citygate peaking services to meet its supply need (Exh. DTE-NSTAR-1-2; RR-DTE-6 **CONFIDENTIAL**). However, the Company recognized that the price of these supplies during the winter season has been more expensive than other resources because of the costs involved in transporting gas supply to the Northeast, as reflected in historical and future basis differentials and index comparisons for New England citygates (Exh. DTE-NSTAR-1-2; RR-DTE-6 **CONFIDENTIAL**). The citygate supply alternative would also have subjected the Company and its customers to the seasonal commodity pricing volatility that has been seen in the New England region in the last several years when supplies become constrained during the winter season, whereas storage gas can be purchased during the off-peak months when commodity prices are typically less volatile (Exh. DTE-

NSTAR-1-2; RR-DTE-6; Attachments RR-DTE-6(a) and (b)). In addition, the purchase of a citygate supply would create cost redundancies because the Company already holds short-haul transportation capacity that would be available to transport supplies from the storage area, where the citygate delivered supply would encompass the cost of similar resources. Therefore, the Company ruled out the purchase of a citygate supply to meet the identified inventory shortfall.

b. Upstream Storage Capacity Is Available Only Through an Open-Season Process Conducted Pursuant to the Requirements of the Federal Energy Regulatory Commission ("FERC").

To meet the identified need, the Company considered various storage capacity alternatives (Exh. DTE-NSTAR-1-1; RR-DTE-3). However, storage services are made available in accordance with FERC regulations and not through an RFP process (Exh. DTE-NSTAR-1-1; Tr. 2, at 16). When storage capacity is available, the storage operator is required by regulations to post the available capacity in an open season bidding process (Exh. DTE-NSTAR-1-1; Tr. 2, at 16). However, Dominion, Tennessee and Texas Eastern, which historically provide storage services at a relatively low cost, were fully subscribed at the time the Company was considering the National Fuel option, and the Company is not aware of any open seasons for storage capacity on these pipelines (Exh. DTE-NSTAR-1-1; RR-DTE-3; Attachment RR-DTE-3; see also Exh. NSTAR-1 (Attachment E) (cost comparison).

When the Company became aware of the two-week open season conducted by National Fuel for storage capacity and associated transportation to Transco – Wharton, the Company recognized that this storage could be an appropriate supply option to meet its design winter deficiency. The Company made this determination, in part, because it

currently has a transportation contract on Transco with a primary receipt point at Wharton and a primary delivery point into Algonquin, where the stored gas could be delivered to areas in the Company's service territory that would need supply during a design winter (see Exh. NSTAR-1, at 8; Exh. DTE-NSTAR-1-1). In addition, the Company determined that, because National Fuel is a reticulated pipeline with receipt and delivery points accessible to several other pipelines, including TGP and TETCO/Algonquin, the National Fuel storage options offered the Company a great deal of flexibility (Exh. NSTAR-1, at 9). Therefore, the Company elected to secure the storage capacity offered by National Fuel and to obtain it at a discounted, negotiated rate (Exh. DTE-NSTAR-1-1).

B. The Company's Proposal Compares Favorably to the Range of Alternatives Reasonably Available to the Company and its Customers Based on Cost and Non-Cost Considerations

1. Cost Factors

The Company demonstrated during the proceeding that, based on their collective rate structure, the cost of the Agreements compare favorably to other available, but less than optimal, resource options that could be delivered to the Company's system (see Exhs. NSTAR-1 (Attachment B) **CONFIDENTIAL** and (Attachment E) **CONFIDENTIAL;** RR-DTE-4 **CONFIDENTIAL;** Attachment RR-DTE-5; Attachment RR-DTE-6(a) and (b) **CONFIDENTIAL**). The Company determined that the costs of the Agreements compare favorably with the rates charged by TETCO and Algonquin (Hubline) for long-haul pipeline transportation rates for comparable volumes of gas (Exh. NSTAR-1, Attachment E **CONFIDENTIAL**). As compared to LNG, the Company demonstrated that the National Fuel Agreements were more cost effective (RR-DTE-4

CONFIDENTIAL). As compared to market area supplies, the Company demonstrated that the National Fuel agreements were less price-volatile (Exh. NSTAR-DTE-1-5; RR-DTE-5). Moreover, as compared to citygate supplies, the Company demonstrated that the National Fuel Agreements are more cost-effective than the price-volatile winter citygate supply options available to the Company (RR-DTE-6 **CONFIDENTIAL**).

In addition, the Company compared the costs of the National Fuel resources with storage rates offered by: (1) Dominion Transmission Inc.; (2) TETCO; (3) TGP; and (4) Steuben Gas Storage Company and, aside from the fact that such storage services were not available to the Company, determined that National Fuel's storage and transportation resources compared favorably to these storage-related options with respect to cost (Exh. NSTAR-1, Attachment E **CONFIDENTIAL**; RR-DTE-3). Accordingly, based on cost factors alone, the National Fuel Agreements compare favorably to other supply options available to the Company.

2. Non-Cost Factors

In addition to cost factors, the Company evaluated the National Fuel Agreements based on such non-cost factors as: (1) reliability; (2) flexibility; and (3) diversity to determine whether the Agreements met the Department's public interest standard. As noted in the Company's Explanatory Statement, each of these non-cost factors weighed in favor of the Company's decision to enter into the proposed Agreements.

First, the proposed Agreements will increase the reliability and flexibility of gas deliveries on the TETCO/Algonquin pipeline serving the NSTAR Gas service area (Exh. NSTAR-1, at 12). The design-year deficiency is forecasted during a design winter in that part of the Company's system served by TETCO/Algonquin (id.). Accordingly, by

procuring a resource that can be delivered to the TETCO/Algonquin system, the Company's reliability of supply will be increased, particularly during design winter conditions (id.).

Moreover, the National Fuel storage can be delivered to the Company's service territory via one of the Company's existing transportation sources (i.e., Transcontinental Gas Pipeline Co.) (see 2001-2006 Supply Plan, Attachment 1, Table G-24). Therefore, in addition to promoting system reliability, the location of the National Fuel storage promotes system flexibility because it will increase the Company's ability to respond to seasonal fluctuations in demand so that reliability is maintained in a cost-efficient manner (Exh. NSTAR-1, at 12).

With respect to diversity, the Agreements will enhance the Company's system diversity because the addition of new storage from National Fuel will allow the Company to conserve its gas storage in other locations along the TETCO/Algonquin pipeline (id.). Accordingly, the National Fuel storage will allow the Company to displace withdrawals that would otherwise have been made from TETCO accounts and preserve inventory levels throughout a design season.

IV. CONCLUSION

As discussed above, the addition of the National Fuel storage and transportation services is consistent with the Company's established portfolio objectives. The National Fuel Agreements also compare favorably to the range of alternatives reasonably available to the Company and its customers based both on price and non-price factors. Accordingly, the National Fuel Agreements represent a cost-effective means for the Company to meet its ongoing service obligations to customers and should be approved by

the Department as in the public interest.

WHEREFORE, the Company respectfully requests that the Department:

VOTE: That the National Fuel Agreements: (1) are consistent with the portfolio objectives established in the Company's most recently approved long-range resource and requirements plan; and (2) compare favorably to the range of alternatives reasonably available to the Company and its customers; and

ORDER: That the National Fuel Agreements are in the public interest and are approved; and

FURTHER ORDER: Such other approvals as may be necessary or appropriate.

Respectfully submitted,

NSTAR GAS COMPANY

By its attorneys,

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COMMONWEALTH OF MASSACHUSETTS

DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

NSTAR Gas Company	)	D.T.E. 03-57

INITIAL BRIEF OF NSTAR GAS COMPANY

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